

STATEMENT OF SENATOR JOHN McCain
SENATE COMMITTEE ON
COMMERCE, SCIENCE, AND TRANSPORTATION
FULL COMMITTEE HEARING ON THE FINANCIAL CONDITION
OF THE AIRLINE INDUSTRY
JANUARY 9, 2003

- ~ By all accounts, the airline industry has hit one of its roughest times ever. The terrorist attacks of 2001 compounded the impact of an economic slowdown that was already underway. As a result of the attacks, the airlines faced a serious crisis that required government intervention, and Congress responded with legislation designed to stabilize the industry in the short term. Our efforts appear to have been somewhat successful because all of the major carriers are still operating; however, two of them are currently attempting to restructure themselves through bankruptcy.
- The current condition of the industry and its future prospects are of paramount concern. The airlines are seeking additional assistance from the government. Although there may be ways that we can be helpful, we must be cautious about any effort we might undertake. There is no dispute about the importance of aviation to our nation. But, as a general matter, government involvement in the financial health of an industry should proceed cautiously. We must ask whether our actions would improperly distort the marketplace. The ability of some airlines to remain profitable in the current climate raises the question of whether there is something wrong with the rest of the industry. We should be reluctant to do anything that might keep inefficient businesses afloat. Many people believe that the basic business model of the traditional hub-and-spoke air carriers was broken long before these current difficulties.
 - We face no easy choices. While I instinctively favor market solutions, one potential drawback to allowing the market to sort out winners and losers is that the failure of one or more airlines could substantially increase market concentration, which necessarily means the consumers will suffer. I, for one, do not relish the thought of having the airline industry restored to financial health through consolidation or other industry action erodes competition and significantly increases airfares in captive or semi-captive markets. Furthermore, there could be significant losses of service in some markets and regions if one major carrier were to be liquidated. We need to look carefully at the potential effects of any actions we may take.
 - Whether or not Congress provides additional assistance, the industry must act to help itself. The economy is struggling and many industries would like governmental aid. Very few have received the assistance that has been given to the airlines. That assistance has certainly been warranted, but it does not mean the government will or should step in every time. The aviation industry may simply need to adjust to the new realities of air travel before we can take any further significant action. There are signs that such efforts are underway at some airlines. These efforts may lead to difficulties that might be painful in the short term, but also might be better for the industry as a whole in the long term.
 - I thank our witnesses for being here and hope they will be able to shed light on what the future holds for the industry.